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Fortis Meets 21st Century Trading Strategies Alongside Multi-Asset Class, Multi-Geography Clearing Solutions



Jongmans: Adopting a global service model.

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As MiFID frees securities and investment firms from being forced to send order flow to their home markets and permits them to trade anywhere, while an industry Code of Conduct forces clearance and settlement services to give systems access to other providers, European institutions are talking about mergers and acquisitions and more competition in the same breath. Some see a 24/7 economy around the corner, with heightened demand for technology to support the evolution of a single European market. *Global Investment Technology* spoke with Marcel Jongmans, Chief Executive Officer, Global Brokerage, Clearing & Custody, at Fortis, the banking and insurance services provider which also serves as the clearinghouse for trades executed on the Chi-X alternative trading facility.

GIT: What are the challenges you face in clearing and custody with MiFID coming into play, especially as Fortis clears and settles Chi-X trades?

MJ: The challenges are more related to the European Code of Conduct. Clearinghouses are now allowed to apply for functionality for every exchange. For example, our clearinghouse can now apply to be a clearinghouse to Euronext or Xetra [the Deutsche Börse trading platform]. That's what you see flying around now because letters are sent out to all the different infrastructure players and LCH. Clearnet wants to clear Xetra and, vice versa, Eurex Clearing wants to clear Euronext, the LSE and other exchanges. That is what's happening, especially at the clearing level. What's the problem for a clearer? It's not a very big one, especially for big clearers like Fortis. We have been a general clearer for many years. If an exchange has connected to more than one clearinghouse, we balance the positions among the clearinghouses. That is interoperability between clearinghouses, which is a challenge for general clearing members as well. Now we see more multi-lateral trading facility-like infrastructure players and more new clearinghouses. The landscape is changing.

GIT: What are the limiting factors of current infrastructures in Europe as well as globally?

MJ: The 15 barriers that the Giovannini Group identified summarize this. Each country has its own local practices, regulations, laws and tax rules. Fourteen of

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those 15 barriers have yet to be solved. It is still expensive to trade across borders, and it's restricted by the need to learn the local rules and how to settle in the local central securities depositories [CSDs]. The functions performed are all more or less the same, but how they are implemented has many local differences. We are connected to the different market infrastructures, all the clearinghouses and many CSDs. We are an intermediary – we are in the middle; we are the spider in the web. We have built all the connections for our clients. Due to globalization, our clients, especially proprietary traders and market makers, expect support for global trading and operations. However, there again, due to regulations and laws, we're still restricted in optimization in operations, in capital, in offsetting of positions and collateral. That will take years to change.

GIT: How long will it be before Europe may be viewed as a single market?

MJ: We are coming closer and closer. Our clients already see Europe as a whole because Fortis has already hooked up to the local infrastructures. Due to the legal talk about financial, collateral and the like, the regulations are quite clear and allow us to do more within a European landscape than what we are able to do on an intercontinental or global landscape.

GIT: What are some of the new requirements raised by MiFID for your brokerage clients? Where do you see the opportunity for Fortis to meet these needs?

MJ: It's mostly related to best execution and trade reporting for our retail banks and private banks' clients. We provide them a best execution service, offering a proactive approach to MiFID, rather than a reactive or defensive approach. So we should look further than offering just one exchange or offering best execution as being the regulated exchange. There are more possibilities now and we would like to make these available also to our clients. We've invested in a new infrastructure for this and we also provide these services for trade reporting.

GIT: When you say best execution, how are you defining or qualifying that?

MJ: Best execution takes into account a number of parameters. For retail and private banks, two main ones are the price and cost involved, of the whole value chain. But we look at additional parameters such as liquidity and speed of execution, where we have smart algorithms and they're able to evaluate these on a per-order basis. For certain stocks, we'll look at exchanges where they're listed. For example, if a retail aggregator or private bank sends us an order without an exchange, so it's not a directed order, then our algorithms will find out what the best execution is among Xetra, Euronext or Chi-X, according to all the rules set. After that, we send out the order and get back the execution on the venue chosen.

GIT: What new client demands in risk management do you anticipate?

MJ: Our biggest clients, the market makers looking for global position integration, who trade OTC and want to integrate all the positions into one book, seek to offset between all positions and asset classes in their trading books. Their goal is to have more capital to trade.



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GIT: Are more getting into multiple asset classes as part of that?

MJ: Yes, absolutely. You see that trading companies that formerly only traded futures, equity options and underlying values are now trading foreign exchange, energy, commodities and bonds. You see a differentiation in asset classes now. What they're looking for is offsetting across these asset classes. They're looking for a clearer who can provide them with that.

GIT: What are some of your key IT infrastructure initiatives for 2008 that will deliver added value?

MJ: On the brokerage side, we will further expand our market access capabilities. We will integrate our efforts on market access capability across the globe. We will also set foundations for a global platform to support our risk requirements, including integrating positions for clients and monitoring risk profiles.

GIT: In what functional area among brokerage, clearing and custody do you anticipate greatest IT development and support needs?

MJ: In the past two to three years, the quickest developments were in brokerage and market access. These are more related to the trading side of the business, which is more developed or technically advanced and is a flashier business than the clearing and custody arena. In the next few years, we will have to invest to bring our clearing and custody up to the same speed, enabling us to offer an even more integrated multi-asset product.

GIT: Where are the biggest challenges and opportunities in offering electronic connectivity and trading solutions for today's investment clients?

MJ: When we look at electronic connectivity today, the connectivity itself is not even that big an issue because much of the communications protocols on the trading side are becoming standardized, including a lot of networks and corporations, and users of aligned hubs, for example, through Deutsche Börse. We can hook up customers quite easily and link them to an exchange. The difficulties that we started up with, the limiting factors, are legal and regulatory constraints which sometimes don't allow these [actions] or make them more difficult. On the back of that, we need to look into the clearing and custody functions, which have to be brought up to speed with connectivity.

GIT: As cross-asset strategies proliferate, what kinds of support services do you anticipate investors will require?

MJ: There's a growing demand for multi-asset class trading, especially structured products. For providers like Fortis, it means that the OTC service is growing, next to the immense growth on the exchange. Especially due to the more complex operations related to the OTC services, there is an increase in demand for well-qualified staff in back offices and operations. It's not only for multi-class trading, it's a combination of the different asset classes. For example, if some of our prop traders trade an ETF, there's always an underlying basket trade involved. Basket trading can be done between different countries in Europe, for example. The settlement agent then has to settle them in one CSD and one depository. They have to deal with different regulations and laws in each country to settle this complex trade. These trades are growing in number,

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and aren't really supported by the market infrastructure or systems providers. The OTC world and the combination of different asset classes is the biggest challenge for the next few years.

GIT: *What do you think will distinguish successful players in the electronic environment of the 21st century?*

MJ: You need a global service model. If you're only local, you're not a player anymore in this century. You need to be global and act local. You need a 24-hour, follow-the-sun business model. You need to cope with local regulation, especially for a provider like us that is present in the US, Europe and Asia. In Asia, especially, we need to cope with all local regulation because Asia is just a name – there are so many countries in Asia. There you still need to act local on a global basis.

If we look on the technology side, especially in the custody arena in the past, the large legacy systems were quite common, but overall, across all our business lines, we will move toward smaller, loosely coupled, not fully integrated software components. We will look more at open standards that are available, such as FIX, but we will also allow for proprietary standards with some of our customers. We will also split what is sometimes integrated within the software combinations of business processes and business rules. We will try to separate these from each other to make our business model more flexible. These will also define future success. □